

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Charter Township of Harrison	County MaComb
Fiscal Year End December 31, 2006	Opinion Date June 6, 2007	Date Audit Report Submitted to State June 26, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

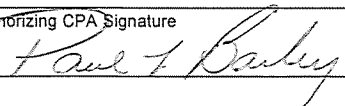
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☒ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC		Telephone Number (810) 984-3829	
Street Address 1979 Holland Avenue		City Port Huron	State MI
Zip 48060			
Authorizing CPA Signature 	Printed Name Paul L. Bailey	License Number 1101014088	

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

ANNUAL FINANCIAL STATEMENTS
with Supplementary Information

FOR THE YEAR ENDED
DECEMBER 31, 2006

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



CHARTER TOWNSHIP OF HARRISON, MICHIGAN

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CHARTER TOWNSHIP OF HARRISON, MICHIGAN

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of the
Charter Township of Harrison
St. Clair County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Harrison, Michigan, as of and for the year ended December 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Harrison's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Harrison, Michigan, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 6, 2007 on our consideration of the Charter Township of Harrison's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9, and schedules of funding progress, employee contributions and budgetary comparisons on pages 44 through 49 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Harrison's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedure applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

June 6, 2007

Management's Discussion and Analysis

As management of the Charter Township of Harrison (Township), we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal years ended December 31, 2006.

Financial Highlights

- The Township's assets exceeded its liabilities at the close of the most recent fiscal year by \$37,471,426 (*net assets*). Of this amount, \$8,469,102 (*unrestricted undesignated net assets*) may be used to meet the government's on-going obligations to citizens and creditors.
- The government's total net assets increased by \$ 397,951.
- As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$6,892,380, an increase of \$1,284,309. Approximately 78% of this total, or \$5,357,804, is available for spending at the government's discretion (unreserved and undesignated fund balance.)
- The Township's issued \$950,000 during the current fiscal year for special assessment debt.
- Combined interest income on all governmental and proprietary funds rose to \$796,760, a 99.5% increase over prior year, at a time when yields on federal treasuries remained flat. Interest income improvement was the result of a change in cash management procedures, and transfer of the Township's primary accounts to a new bank.
- The Township entered into an equipment lease in the amount of \$300,000 for the purchase of a fire truck.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide* financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected special assessments).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Township include general administration, public safety, public works, health and welfare, and recreation and cultural. The business-type activities include sanitary sewer and water operations. The government-wide financial statements appear on pages 10-12 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the Township's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows* of spendable resources, as well as on *balances* of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the short-range financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate a comparison between *governmental funds* and *governmental activities*.

The Township maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general, fire protection, police protection, debt service, each of which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report (see pages 50-53).

The Township adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets. The basic governmental fund financial statements can be found on pages 13-14 and 16-17 of this report.

Proprietary funds. The Township maintains one type of proprietary fund, an enterprise fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Township uses an enterprise fund to account for its water and sewer operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The proprietary fund financial statements can be found on pages 19-21 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements, because the resources of those funds are *not* available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for governmental funds.

The basic fiduciary fund financial statement can be found on page 22-23 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24-43 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Harrison Township, assets exceeded liabilities by \$37,471,426 at the close of the most recent fiscal year.

One of the largest portions of the Township's net assets (62%) reflects its investments in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that remains outstanding. The Township uses these capital assets to provide services to residents; consequently, these assets are not available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Harrison Township's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current and other asset	\$ 14,811,897	\$ 13,685,487	\$ 7,801,337	\$ 7,087,239	\$ 22,613,234	\$ 20,772,726
Capital assets	5,553,099	4,746,461	20,633,055	21,150,048	26,186,154	25,896,509
Total assets	20,364,996	18,431,948	28,434,392	28,237,287	48,799,388	46,669,235
Liabilities						
Current liabilities	6,979,179	6,571,290	611,467	535,618	7,590,646	7,106,908
Non-current liabilities	3,673,456	2,641,813	63,860	-	3,737,316	2,641,813
Total liabilities	10,652,635	9,213,103	675,327	535,618	11,327,962	9,748,721
Net Assets						
Invested in capital assets, net of related debt	2,615,662	2,727,826	20,633,055	21,150,048	23,248,717	23,877,874
Restricted assets	2,721,547	1,871,170	-	-	2,721,547	1,871,170
Unrestricted	4,375,152	4,619,849	7,126,010	6,551,621	11,501,162	11,171,470
	<u>\$ 9,712,361</u>	<u>\$ 9,218,845</u>	<u>\$ 27,759,065</u>	<u>\$ 27,701,669</u>	<u>\$ 37,471,426</u>	<u>\$ 36,920,514</u>

The Township's net assets are divided into the two categories of governmental activities and business-type activities. Combined net assets increased by \$397,951 or 1% during the current fiscal year. Net assets of governmental activities increased by \$340,555 and the business-type activity net assets increased by \$57,396.

Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue						
Program revenue:						
Charges for Services	\$ 1,230,453	\$ 2,774,448	\$ 5,332,479	\$ 5,637,978	\$ 6,562,932	\$ 8,412,426
Special assessment revenue	-	56,118	-	-	-	56,118
Operating grants and contributions	147,206	89,399	-	-	147,206	89,399
Capital grants and contributions	143,193	23,103	133,958	186,188	277,151	209,291
General revenue:						
Property taxes	6,146,953	5,629,597	-	-	6,146,953	5,629,597
State-shared revenue	1,874,007	1,912,339	-	-	1,874,007	1,912,339
Unrestricted investment earnings	586,422	251,330	300,467	162,459	886,889	413,789
Franchise fees	313,856	308,985	-	-	313,856	308,985
Gain on sale of capital assets	-	-	-	10,300	-	10,300
Miscellaneous	204,427	265,124	-	-	204,427	265,124
Total revenue	10,646,517	11,310,443	5,766,904	5,996,925	16,413,421	17,307,368
Expenses						
General government	2,308,053	2,327,919	-	-	2,308,053	2,327,919
Public safety	6,498,850	5,919,448	-	-	6,498,850	5,919,448
Public works	1,195,482	266,034	5,709,508	5,566,272	6,904,990	5,832,306
Community and economic development	136,831	143,054	-	-	136,831	143,054
Recreation and culture	40,830	21,984	-	-	40,830	21,984
Interest on long-term debt	125,916	80,730	-	-	125,916	80,730
Other functions	-	1,875	-	-	-	1,875
Total expenses	10,305,962	8,761,044	5,709,508	5,566,272	16,015,470	14,327,316
Change in Net Assets	\$ 340,555	\$ 2,549,399	\$ 57,396	\$ 430,653	\$ 397,951	\$ 2,980,052

Governmental Activities. Governmental activities increased the Township's net assets by \$340,555, or 4%. Revenue was up in property tax and investment revenue but down in state revenue sharing income. Expenses increased this year over last for Public Safety and Public Works. Public safety expense increase for the cost of 3 additional officers. The Township's three largest revenue sources are property taxes, State shared revenue and charges for services at 57.6%, 17.6% and 11.6% of total respectively. The Township's total governmental expenditures at \$10.3 million, increased primarily due to increased police patrols as indicated above.

Business-type Activities. Harrison Township's only business-type activity consists of the Water and Sewer Department. The Township operates a water distribution system providing its customers with water supplied by the cities of Detroit and Mt. Clemens. The Township also maintains a sewer collection system, which is connected to the City of Detroit sewage disposal network. Revenue from operations fell by \$303,460 (5.4%), while operating expense increased by \$143,236 or 2.6%, contributing to a loss on operations this year of \$364,690. Expenses remained consistent for labor and supplies. Most of the increased expense is for increased charges for sewage treatment.

Financial Analysis of the Harrison Township Funds

As noted earlier, Harrison Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds The focus of the Township's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Township's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$6,892,380, an increase of \$1,284,309 in comparison with prior year. Approximately 78% of this total amount (\$5,357,804) constitutes *unreserved, undesignated* fund balance, which is available for spending at the Township's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending, because it has already been committed for capital projects and debt service.

The General fund is the chief operating fund of the Township. At the end of the current fiscal year, unreserved fund balance of the General fund was \$4,157,297 with a total fund balance of \$4,170,833. As a measure of the General fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 160% of total General fund expenditures. However, it should be noted that subsequent to the 2006 year-end, vacant property was purchased by the Township for \$1,800,000 with \$900,000 financed, and \$900,000 paid from available resources.

The fund balance of the Township's General fund increased by \$634,287 during fiscal year 2006. The increase is attributable on the revenue side to improved return on investments, and higher than anticipated cable television franchise fees; and on the expenditure side to staffing vacancies, and reduced spending for supplies and contracted services.

The Fire Protection Fund has a total fund balance of \$861,389, which increased by \$175,383 during the year, primarily due to financing the purchase of the new fire truck on time. Fire Fund surplus is used to replace aging equipment.

The Police Fund has \$81,934 in total fund balance, having increased \$14,276 for the year.

Proprietary Funds. The Township's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Total net assets of the Water and Sewer fund at year-end amounted to \$27,759,065. This fund had an increase in net assets of \$57,396. Operating revenue decreased from last year by \$303,460, because of the combination of utility revenue falling by 5.4%, and supplier charges rising 2.6%. In addition, revenue deterioration was exacerbated by the reduction (\$90,500) in income from other sources, such as tap fees and inspections, due to the downturn in housing construction activity.

General Fund Budgetary Highlights

During the course of the year, the Township amended the budget on a number of occasions to reflect changes in spending patterns, not anticipated during the preparation of the budget. The most frequent amendments provided funding for equipment purchases out of a contingency line, which was built into the budget to cover unanticipated needs throughout the year.

Capital Asset and Debt Administration

Capital Assets. Harrison Township's investment in capital assets for its governmental and business-type activities as of December 31, 2006 amounted to \$26,186,154 (net of depreciation). Investment in capital assets includes land, buildings and improvements, fire equipment, water and sewer lines, and park facilities. Asset acquisitions appear on the Machinery and Equipment line for a new fire truck and an ambulance, and on the Building line for renovations to the Administration building.

Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$580,158	\$580,158	\$704,292	\$704,292	\$1,284,450	\$1,284,450
Buildings and improvements	3,092,656	2,958,881	373,993	390,353	3,466,649	3,349,234
Construction in progress	-	-	78,266	84,237	78,266	84,237
Machinery and Equipment	1,356,890	862,018	366,678	438,010	1,723,568	1,300,028
Infrastructure	523,395	537,219	19,109,826	19,533,156	19,633,221	20,070,375
Total	<u>\$ 5,553,099</u>	<u>\$ 4,938,276</u>	<u>\$ 20,633,055</u>	<u>\$ 21,150,048</u>	<u>\$ 26,186,154</u>	<u>\$ 26,088,324</u>

Long-term Debt. At the end of the current fiscal year, the Township had total debt outstanding of \$3,737,316. Of this amount, \$870,000 comprises debt backed by the full faith and credit of the Township, and \$1,810,000 is special assessment debt for which the Township is liable in the event of default by the property owners subject to the assessments. The general obligation bonds were issued in prior years for construction of the new fire station. There was no outstanding debt at year for Water & Sewer system projects. The Township has two equipment leases outstanding totaling \$257,437 for various pieces of firefighting equipment.

Long-Term Debt

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
General obligation bonds	\$ 870,000	\$ 920,000	\$ -	\$ -	\$ 870,000	\$ 920,000
Special assessment debt						
with governmental commitment	1,810,000	1,020,000	-	-	1,810,000	1,020,000
Leases	257,437	78,635	-	-	257,437	78,635
Compensated Absences	736,019	712,297	63,860	66,224	799,879	778,521
Total	<u>\$ 3,673,456</u>	<u>\$ 2,730,932</u>	<u>\$ 63,860</u>	<u>\$ 66,224</u>	<u>\$ 3,737,316</u>	<u>\$ 2,797,156</u>

The Township's total debt had a net increase of \$940,160, or 33.6% during the fiscal year. One new special assessment bond was issued for \$950,000 and a new lease for \$300,000 was entered into for a Pierce fire truck. Regularly scheduled debt payments were made in the amount of approximately \$331,000.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the fiscal year 2007 budget:

Fiscal year 2006 was the first year of a three-year millage approved by the Township residents. Although the millage was approved for a slightly higher rate, the Board of Trustees chose to fix the rate in 2007 at the same rate as 2006, which was 6.67 mills.

Revenue constraints with increased costs combined to present a challenge in developing the fiscal year 2007 budget. The State of Michigan's economy has remained relatively weak overall and was expected to result in continued job losses in major industries, such as construction and manufacturing. On the revenue side, as a result of continued state budget problems and slow state economy, state-shared revenues (the Township's third largest revenue source) were expected to remain sluggish. On the expenditure side, spending pressures have resulted only partially from personnel and related costs, but also from significant increases in fuel and utility prices, as well as for certain supply expenses.

Harrison is a fully developed small township and as such depends on growth in property values to offset growth in expenditures that are supported by taxes, and to offset reductions in state-shared revenues. Negative influences on the budget were mitigated by an overall increase of 6.5% in taxable values as a result of new construction and property values. Property taxes comprise 38% of the Township's total revenues.

The Township has experienced no specific events which will materially impact its finances but certain long-term trends such as capped property tax revenues and shrinking state-shared revenues will have an impact on the Township's ability to provide services as costs are influenced by inflation.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for those with an interest in Harrison Township. Questions concerning any of the information should be addressed to the Township Accounting Department, 38151 L'Anse Creuse, Harrison Township, MI 48045.

BASIC FINANCIAL STATEMENTS

CHARTER TOWNSHIP OF HARRISON
Macomb County, Michigan

STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Total	
ASSETS:				
Cash and cash equivalents	\$ 1,984,139	\$ 1,690,385	\$ 3,674,524	\$ 12,524
Investments	3,438,209	4,950,000	8,388,209	-
Receivables (net of allowance)	9,067,900	1,315,538	10,383,438	-
Internal balance	308,113	(308,113)	-	-
Inventory	-	153,527	153,527	-
Prepaid expenses/deposits	13,536	-	13,536	-
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	580,158	782,558	1,362,716	-
Assets being depreciated	4,972,941	19,850,497	24,823,438	-
Total Assets	<u>20,364,996</u>	<u>28,434,392</u>	<u>48,799,388</u>	<u>12,524</u>
LIABILITIES:				
Payables and accrued liabilities	384,942	611,467	996,409	-
Accrued interest	63,335	-	63,335	-
Deferred revenue	6,530,902	-	6,530,902	-
Non-current liabilities				
Accrued compensated absences	736,019	63,860	799,879	-
Due within one year	346,682	-	346,682	-
Due in more than one year	2,590,755	-	2,590,755	-
Total Liabilities	<u>10,652,635</u>	<u>675,327</u>	<u>11,327,962</u>	<u>-</u>
NET ASSETS:				
Investment in capital assets, net of related liabilities	2,615,662	20,633,055	23,248,717	-
Restricted				
Acquisition/construction of capital assets	339,421	-	339,421	-
Public Safety	1,097,363	-	1,097,363	-
Recreation and culture	21,320	-	21,320	-
Grants	81,824	-	81,824	-
Debt Service	1,181,619	-	1,181,619	-
Unrestricted				
Designated	-	3,032,060	3,032,060	-
Undesignated	<u>4,375,152</u>	<u>4,093,950</u>	<u>8,469,102</u>	<u>12,524</u>
Total Net Assets	<u>\$ 9,712,361</u>	<u>\$ 27,759,065</u>	<u>\$ 37,471,426</u>	<u>\$ 12,524</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF HARRISON
Macomb County, Michigan
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General Government	\$ 2,308,053	\$ 227,643	\$ 127,468	\$ 83,464
Public Safety	6,498,850	1,002,810	6,747	59,729
Public Works	1,195,482	-	12,991	-
Recreation and Culture	40,830	-	-	-
Community and Economic Development	136,831	-	-	-
Interest on Long Term Debt	125,916	-	-	-
Total governmental activities	10,305,962	1,230,453	147,206	143,193
Business type activities				
Water and Sewer	5,709,508	5,332,479	-	133,958
Total Primary Government	16,015,470	6,562,932	147,206	277,151
Component Unit - Ecomonic Development Corporation	\$ -	\$ -	\$ -	\$ -
General revenues:				
Property taxes / assessments				
State shared revenue				
Unrestricted investment income				
Franchise Fees				
Other				
Total general revenues				
Change in net assets				
Net assets at beginning of year				
Prior period adjustments				
Net assets at beginning of year as restated				
Net assets at end of year				

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

Primary Government		Total	Component Units
Governmental Activities	Business Type Activities		
\$(1,869,478)	\$ -	\$(1,869,478)	\$ -
(5,429,564)	-	(5,429,564)	-
(1,182,491)	-	(1,182,491)	-
(40,830)	-	(40,830)	-
(136,831)	-	(136,831)	-
(125,916)	-	(125,916)	-
(8,785,110)	-	(8,785,110)	-
-	(243,071)	(243,071)	-
(8,785,110)	(243,071)	(9,028,181)	-
-	-	-	-
6,146,953	-	6,146,953	-
1,874,007	-	1,874,007	-
586,422	300,467	886,889	603
313,856	-	313,856	-
204,427	-	204,427	-
9,125,665	300,467	9,426,132	603
340,555	57,396	397,951	603
9,218,845	27,701,669	36,920,514	11,921
152,961	-	152,961	-
9,371,806	27,701,669	37,073,475	11,921
\$ 9,712,361	\$ 27,759,065	\$ 37,471,426	\$ 12,524

CHARTER TOWNSHIP OF HARRISON

Macomb County, Michigan

BALANCE SHEET GOVERNMENTAL FUNDS DECEMBER 31, 2006

	General	Fire	Police	Debt Service
ASSETS				
Current assets -				
Cash and cash equivalents	\$ 1,296,726	\$ 133,215	\$ -	\$ 210,361
Investment	1,694,242	519,967	100,000	984,000
Receivables -				
Property taxes	478,551	-	1,279,128	-
Interest and accounts	279,877	67,964	2,318	9,048
Special assessments	-	4,939,667	-	1,176,805
Due from other governmental units -				
Federal/State	633,321	10,000	-	-
Due from other funds	204,703	250,418	114	-
Prepays/deposits	13,536	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 4,600,956</u>	<u>\$ 5,921,231</u>	<u>\$ 1,381,560</u>	<u>\$ 2,380,214</u>
Liabilities:				
Accounts payable	\$ 65,733	\$ 44,459	\$ 330	\$ -
Accrued liabilities	27,686	57,277	-	-
Due to other funds	-	18,333	19,793	220,000
Deferred revenue	336,704	4,939,773	1,279,503	978,595
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>430,123</u>	<u>5,059,842</u>	<u>1,299,626</u>	<u>1,198,595</u>
Fund Balances:				
Reserved				
Prepays	13,536	-	-	-
Debt Service	-	-	-	1,181,619
Capital Projects	-	-	-	-
Unreserved -				
Undesignated -				
General Fund	4,157,297	-	-	-
Special Revenue Funds	-	861,389	81,934	-
Total Equity	<u>4,170,833</u>	<u>861,389</u>	<u>81,934</u>	<u>1,181,619</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Equity	<u>\$ 4,600,956</u>	<u>\$ 5,921,231</u>	<u>\$ 1,381,560</u>	<u>\$ 2,380,214</u>

The accompanying notes are an integral part of these financial statements.

Other Governmental Funds	Total Governmental Funds
\$ 343,837	\$ 1,984,139
140,000	3,438,209
-	1,757,679
18,314	377,521
-	6,116,472
66,575	709,896
220,000	675,235
-	13,536
<u>\$ 788,726</u>	<u>\$ 15,072,687</u>

\$ 179,744	\$ 290,266
9,713	94,676
2,664	260,790
-	7,534,575
<u>192,121</u>	<u>8,180,307</u>

-	13,536
-	1,181,619
339,421	339,421
-	4,157,297
257,184	1,200,507
<u>596,605</u>	<u>6,892,380</u>
<u>\$ 788,726</u>	<u>\$ 15,072,687</u>

CHARTER TOWNSHIP OF HARRISON
Macomb County, Michigan

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2006**

Fund Balances - total governmental funds	\$	6,892,380
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Capital assets	8,381,872	
Accumulated depreciation	<u>(2,828,773)</u>	5,553,099

Other Long-term assets are not available to pay for current period expenditures
and, therefore, are deferred in the funds

Delinquent personal property taxes (net of allowance)	25,078	
Special assessments	<u>978,595</u>	1,003,673

Long - term liabilities, including bonds payable, are not due and payable
in the current period and therefore are not reported in the funds.

Bonds Payable	(2,937,437)	
Compensated absences	(736,019)	
Accrued interest	<u>(63,335)</u>	<u>(3,736,791)</u>

Net Assets of governmental activities	\$	<u><u>9,712,361</u></u>
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The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF HARRISON

Macomb County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED DECEMBER 31, 2006

	General	Fire	Police	Debt Service
Revenues:				
Taxes	\$ 269,841	\$ 4,604,278	\$ 1,255,345	\$ -
Licenses and permits	315,156	-	-	-
Intergovernmental -				
Federal/State	1,992,021	59,729	-	-
Charges for services	163,550	326,522	-	-
Fines and forfeits	48,434	-	-	-
Special assessments	-	-	-	380,535
Interest and rent	286,511	112,468	28,283	108,812
Other	182,582	55,157	-	-
Total Revenues	<u>3,258,095</u>	<u>5,158,154</u>	<u>1,283,628</u>	<u>489,347</u>
Expenditures:				
Current -				
General Government	2,407,692	-	-	-
Public Safety	91,213	5,024,196	1,269,352	-
Public Works	74,090	-	-	-
Recreation and Cultural	25,054	-	-	-
Community and Economic Development	-	-	-	-
Debt Service				
Principal	-	121,198	-	210,000
Interest and fees	-	10,732	-	82,178
Total Expenditures	<u>2,598,049</u>	<u>5,156,126</u>	<u>1,269,352</u>	<u>292,178</u>
Excess of revenues over (under) expenditures	<u>660,046</u>	<u>2,028</u>	<u>14,276</u>	<u>197,169</u>
Other Financing Sources (Uses):				
Transfers from other funds	32,804	-	-	214,886
Transfers to other funds	(58,563)	(126,645)	-	(32,804)
Proceeds from sale of bonds/notes	-	300,000	-	-
Total Other Financing Sources (Uses)	<u>(25,759)</u>	<u>173,355</u>	<u>-</u>	<u>182,082</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>634,287</u>	<u>175,383</u>	<u>14,276</u>	<u>379,251</u>
Fund Balances at beginning of year	3,512,238	686,006	67,658	802,368
Prior period adjustments	<u>24,308</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances at beginning of year as restated	<u>3,536,546</u>	<u>686,006</u>	<u>67,658</u>	<u>802,368</u>
Fund Balances at end of year	<u>\$ 4,170,833</u>	<u>\$ 861,389</u>	<u>\$ 81,934</u>	<u>\$ 1,181,619</u>

The accompanying notes are an integral part of these financial statements.

Other Governmental Funds	Total Governmental Funds
\$ -	\$ 6,129,464
500,163	815,319
127,468	2,179,218
122,721	612,793
-	48,434
220,000	600,535
50,348	586,422
19,639	257,378
<u>1,040,339</u>	<u>11,229,563</u>
-	2,407,692
636,416	7,021,177
1,107,568	1,181,658
-	25,054
135,565	135,565
-	331,198
-	92,910
<u>1,879,549</u>	<u>11,195,254</u>
<u>(839,210)</u>	<u>34,309</u>
91,783	339,473
(121,461)	(339,473)
<u>950,000</u>	<u>1,250,000</u>
<u>920,322</u>	<u>1,250,000</u>
81,112	1,284,309
489,536	5,557,806
<u>25,957</u>	<u>50,265</u>
<u>515,493</u>	<u>5,608,071</u>
<u>\$ 596,605</u>	<u>\$ 6,892,380</u>

CHARTER TOWNSHIP OF HARRISON
Macomb County, Michigan

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

Net change in fund balances - total governmental funds	\$	1,284,309
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	948,241		
Depreciation expense	(316,996)		
Loss on sale/disposal of capital assets.	(16,423)		614,822

Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(583,046)
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The issuance of long-term debt (e.g. bonds and notes) provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets.

Principal payments on long term liabilities	331,198		
Bond proceeds	(1,250,000)	(918,802)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Increase in accrued interest payable	(33,006)		
Increase in accrued compensated absences	(23,722)	(56,728)

Change in net assets of governmental activities	\$	<u>340,555</u>
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The notes to the financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF HARRISON
Macomb County, Michigan
STATEMENT OF NET ASSETS
PROPRIETARY FUND - WATER AND SEWER FUND
DECEMBER 31, 2006

ASSETS:

Current Assets:

Cash and cash equivalents	\$ 1,690,385
Investments	4,950,000
Accounts receivable	1,315,538
Inventory	153,527
Total Current Assets	<u>8,109,450</u>

Property, Plant and Equipment:

Land	704,292
Equipment	37,711,654
Construction in progress	78,266
	<u>38,494,212</u>
Less - accumulated depreciation	(17,861,157)
	<u>20,633,055</u>

Total Assets	<u>28,742,505</u>
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LIABILITIES:

Current Liabilities:

Accounts payable	584,812
Accrued expenses	26,655
Due to other funds	308,113
Total Current Liabilities	<u>919,580</u>

Long-term Liabilities:

Accrued vacation and sick	<u>63,860</u>
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Total Liabilities	<u>983,440</u>
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NET ASSETS:

Investment in capital assets, net of related debt	20,633,055
Unrestricted	
Designated	3,032,060
Undesignated	4,093,950
Total Net Assets	<u>\$ 27,759,065</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF HARRISON
Macomb County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND - WATER AND SEWER FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

Operating Revenues:

Charges for services - user charges	\$ 5,209,666
Penalty on delinquent accounts	97,805
Grant income	12,339
Other revenue	25,008
Total Operating Revenues	<u>5,344,818</u>

Operating Expenses:

Cost of water produced/purchased	1,022,587
Cost of sewage treatment	1,796,879
Operation and maintenance	621,660
Personal services	1,346,184
Depreciation	922,198
Total Operating Expenses	<u>5,709,508</u>

Operating Income (Loss)	(364,690)
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Non-Operating Revenues (Expenses):

Interest Income	<u>300,467</u>
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Net Income (Loss) Before Capital Contributions	(64,223)
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Capital Contributions:

<u>121,619</u>

Change in Net Assets	57,396
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Net assets at beginning of year	<u>27,701,669</u>
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Net Assets end of year	<u><u>\$ 27,759,065</u></u>
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The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF HARRISON
Macomb County, Michigan
STATEMENT OF CASH FLOWS
PROPRIETARY FUND - WATER AND SEWER FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

Cash Flows From Operating Activities:

Cash receipts from customers	\$ 5,245,267
Cash payments to suppliers	(3,268,476)
Cash payments to employees	(1,325,996)
Net Cash Provided by Operating Activities	<u>650,795</u>

Cash Flows From Noncapital Financing Activities:

Due to other funds	<u>74,231</u>
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Cash Flows From Capital and Related

Financing Activities:

Capital Contributions from connection fees	121,619
Acquisition and construction of capital assets	(411,141)
Net Cash Used by Capital and Related Financing Activities	<u>(289,522)</u>

Cash Flows From Investing Activities:

Interest earned	<u>300,467</u>
Net Cash Provided by Investing Activities	<u>300,467</u>

Net Increase in Cash and Cash

Equivalents for the year 735,971

Cash and Cash Equivalents at Beginning of Year 954,414

Cash and Cash Equivalents at End of Year \$ 1,690,385

Reconciliation of Net Loss to

Net Cash Provided by Operating Activities:

Operating loss for the year	\$(364,690)
Adjustments to reconcile operating loss	
to net cash provided by operating activities -	
Depreciation	922,198
Loss on Disposal of Asset	5,936
Change in assets and liabilities:	
Receivables	(99,551)
Inventory	47,193
Accounts payable/accrued expenses	<u>139,709</u>
Net Cash Provided By Operating Activities	<u><u>\$ 650,795</u></u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF HARRISON
Macomb County, Michigan

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2006

	Pension and Other Employee Benefit Trusts	Agency Funds
	<u> </u>	<u> </u>
ASSETS:		
Cash and cash equivalents	\$ 217,456	\$ 4,086,028
Investments		
Certificates of deposit	433,000	225,000
U.S. treasury and agency securities	2,390,768	-
Mortgage/asset backed securities	338,940	-
Corporate debt	3,620,483	525,000
Foreign bonds	25,765	-
Stock/equities	8,010,265	-
Open end mutual funds	11,159,517	-
Closed end mutual funds	1,701,410	-
REIT's / Tangibles	585,344	-
Alternative investments (hedge funds)	359,142	-
Receivables:		
Pending trades	251,009	-
Accrued interest	40,461	7,930
Total investments	<u>28,916,104</u>	<u>757,930</u>
Total assets	<u>\$ 29,133,560</u>	<u>\$ 4,843,958</u>
LIABILITIES:		
Due to other funds	\$ -	\$ 106,332
Due to other governmental units	-	36,979
Cash bonds and deposits	-	4,700,647
Total liabilities	<u>-</u>	<u>\$ 4,843,958</u>
ASSETS		
Held in trust for pension benefits and other purposes	<u>\$ 29,133,560</u>	

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF HARRISON
Macomb County, Michigan

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Pension and Other Employee Benefit Trust Funds
Additions:	
Contributions	
Employer contributions	\$ 957,714
Plan Member contributions	<u>196,772</u>
Total contributions	<u>1,154,486</u>
Investment income	
Net appreciation in fair value	2,447,185
Interest	<u>1,297,964</u>
Total investment income	3,745,149
Less investment expense	<u>(76,244)</u>
Net investment income	<u>3,668,905</u>
Total Additions	4,823,391
Deductions	
Benefits	<u>1,901,514</u>
Net increase in plan net assets	2,921,877
Net assest held in trust for pension benefits - beginning of year	<u>26,207,683</u>
Net assets held in trust for pension benefits - end of year	<u><u>\$ 29,129,560</u></u>

The accompanying notes are an intergral part of these financial statements

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

The Charter Township of Harrison, Michigan, a Municipal Corporation, was organized as a Township in 1827, under provisions of the constitution and general law of the State of Michigan and became a Charter Law Township on November 13, 1978, under Public Act 359, the Charter Township Act. The Township operates under an elected Township Board which consists of a Supervisor, Clerk, Treasurer, and four (4) Trustees, and provides services to its residents in many areas including law enforcement, fire protection, water, sewer, roads, parks and recreation, planning and economic development, and general administrative services.

These financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the governments' operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Township.

BLENDED COMPONENT UNITS –

The Township Building Authority is governed by the board of trustees. Although it is legally separate from the Township, it is reported as if it were part of the primary government because its sole purpose is to finance and construct the Township's public buildings. The Building Authority was inactive during 2006 and has no assets or liabilities.

DISCRETELY PRESENTED COMPONENT UNITS –

The Economic Development Corporation is reported within the component unit column in the combined financial statements. It is reported in a separate column to emphasize that it is legally separate from the Township. The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the Township so as to provide needed services and facilities of such enterprises to the residents of the Township. The Corporation's governing body, which consists of 11 individuals, is selected by the board of trustees.

JOINT VENTURE –

The Charter Township's of Harrison and Clinton and the City of Mount Clemens entered into a joint venture for the management and operation of the 41-B Judicial District Court. A committee of one representative from each community oversees the administration and management of the Court. Revenues generated from fines, fees, costs, etc. from the boundaries of each unit are deposited directly with the Court but maintained by the unit. Expenditures for the Court, including operations and maintenance, debt retirement and improvements are allocated to each unit based on number of cases for each municipality with any surplus or shortage the responsibility of the individual municipality. In connection, the Charter Township of Clinton has issued \$13.5 million of General Obligation Limited Tax Capital Improvement Bonds for the purpose of constructing, equipping and furnishing a new Court facility. The full faith and credit of each member is pledged for the repayment of bonds. The financial statements for the Court can be obtained at 41-B District Court, One Crocker Boulevard, Mt. Clemens, Michigan, 48043.

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

B. Government-wide and fund financial statements -

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation -

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are intended to finance (the December 2005 levy in 2006). Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgment are recorded only when payment is due.

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes, which are levied and collected in December of each year, are budgeted and treated as revenue in the subsequent year. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The Township reports the following major governmental funds:

General Fund – is the Township’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Fire Fund – is a special revenue fund used to account for taxes and other related revenues restricted for fire service of the Township.

Police Fund – is a special revenue fund used to account for a tax levy for the purpose of providing police protection for the Township.

Debt Service Fund – is used to account for the accumulation of resources for, and the payment of principal and interest on long-term debt of governmental funds.

The Township reports the following major proprietary fund:

Water and Sewer Fund – is used to account for the treatment and distribution of water and sanitary sewer services to residential and commercial users. Funding is provided primarily through user charges.

Additionally, the Township reports the following fund types:

Special Revenue Funds – are used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulation provisions or administrative actions.

Pension Trust and Other Employee Trust Funds – are used to accumulate resources for the pension and health benefits for qualified employees.

Capital Projects Fund – is used to account for financial resources to be used for the acquisition or construction of major capital projects (other than those financed by Proprietary Funds and Trust Funds).

Agency Funds – are used to account for assets held by the Township as an agent for other governments and other funds.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principle on-going operations. The principle operating revenues of the Enterprise Fund are charges to customers for sale and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, the unrestricted resources, as they are needed.

D. Assets, Liabilities and Net Assets or Equity -

Deposits and Investments –

The Township's cash and cash equivalents are considered to be cash on hand, and certificates of deposits with original maturities of three months or less from the date of acquisition demand deposits. The investment trusts/money market funds have the general characteristics of demand deposit accounts in that the Township may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty, and are reported as cash and cash equivalents.

Investments are stated at fair value, which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates; (c) investments that do not have established market values are reported at estimated fair value; and (d) cash deposits are reported at carrying amount which reasonable approximates fair value.

State statutes authorize the Township to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

Receivables and Payables –

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectible.

Inventories and Prepaid Items –

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items.

Property Tax Calendar –

The Township's property tax is levied each December 1 on the taxable value of property located in the Township as if the proceeding December 31. On December 1, the property tax is an enforced lien on property and is payable by the last day of the following February. Property taxes are recognized as revenues in the year they were intended to finance (the 2005 levy is recognized in 2006).

The Township also collects taxes for various other municipalities and school districts. The collection and remittance of these taxes are accounted for in the Tax Collection Fund.

Capital Assets –

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of a year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

As permitted by GASB Statement No. 34, the Township has elected not to report governmental infrastructure assets (principally roads and sidewalks) acquired prior to January 1, 2004.

Property, plant, and equipment of the primary government, is depreciated using the straight line method over the following estimated useful lives:

	<u>Years</u>
Storm drains	50
Buildings and improvements	10-45
Machinery and equipment	5-20
Water and sewer lines and mains	27-50

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Compensated Absences –

In accordance with contracts negotiated with the various employee groups of the Township, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contracts. All vested vacation and sick leave is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for this amount is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations –

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity –

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates –

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Information –

The Township Supervisor, in conjunction with the Director of Finance and Department Heads, prepare and submit the proposed operating budgets for the year commencing January 1. The budgets include proposed expenditures and resources to finance them.

Prior to December 31, the proposed budget is presented to the Township Board. The Board holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through the passage of a Township Resolution. After the budget is adopted, all amendments must be approved by the Township Board.

The Township's approved budgets were adopted at the total expenditure level for the General and Special Revenue Funds. However, for control purposes all budgets are maintained at the object (account) level. These are the legally enacted levels under the State of Michigan Uniform Budgeting and Accounting Act.

The Township does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

Michigan Public Act 621 of 1978, Section 18, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. During the fiscal year ended December 31, 2006, the Township incurred expenditures, which were in excess of the amount appropriated as follows:

	<u>Total Appropriations</u>	<u>Amount Expended</u>	<u>Budget Variance</u>
Police Fund	\$ 1,263,518	\$ 1,269,352	\$ 5,834
Building Inspections Fund	615,350	636,416	21,066

Other – During the year the Township held corporate debit as an investment which does not appear to be in compliance with P.A. 20, as amended.

NOTE 3 - DEPOSITS AND INVESTMENTS:

As of December 31, 2006, the carrying amount of the deposits and investments is \$45,753,375 as follows:

	<u>Primary Government</u>	<u>Fiduciary Government</u>	<u>Component Unit</u>	<u>Reporting Entity</u>
Cash on Hand				
Petty Cash	\$ 1,450	\$ -	\$ -	\$ 1,450
Deposits with Financial Institutions -				
Checking	\$ 5,002	\$ 956,933	\$ 644	\$ 962,579
Certificates of Deposit	6,159,000	986,000	11,880	7,156,880
Total Deposits	\$ 6,164,002	\$ 1,942,933	\$ 12,524	\$ 8,119,459

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):

	Primary Government	Fiduciary Government	Component Unit	Reporting Entity
Investments				
Money Market Fund	\$ 1,743,072	\$ 3,018,551	\$ -	\$ 4,761,623
U.S. Treasury and Agency Securities	-	2,390,768	-	2,390,768
Mortgage/Asset Backed Securities	-	338,940	-	338,940
Corporate Debt	4,154,209	4,145,483	-	8,299,692
Foreign Bonds	-	25,765	-	25,765
Stock/Equities	-	8,010,265	-	8,010,265
Open End Mutual Funds	-	11,159,517	-	11,159,517
Closed End Mutual Funds	-	1,701,410	-	1,701,410
REIT's/Tangibles	-	585,344	-	585,344
Alternative Investments (Hedge Funds)	-	359,142	-	359,142
Total Investments	<u>5,897,281</u>	<u>31,735,185</u>	<u>-</u>	<u>37,632,466</u>
Total Cash on Hand, Deposits and Investments	<u>\$ 12,062,733</u>	<u>\$ 33,678,118</u>	<u>\$ 12,524</u>	<u>\$ 45,753,375</u>
Reconciliation to Combined Balance Sheet				
Reported as Cash and Cash Equivalents -				
Petty Cash	\$ 1,450	\$ -	\$ -	\$ 1,450
Checking	5,002	956,933	644	962,579
Certificates of Deposit	1,925,000	328,000	11,880	2,264,880
Money Market Fund	<u>1,743,072</u>	<u>3,018,551</u>	<u>-</u>	<u>4,761,623</u>
Total Cash and Cash Equivalents	<u>3,674,524</u>	<u>4,303,484</u>	<u>12,524</u>	<u>7,990,532</u>
Reported as Investments -				
Certificates of Deposit	4,234,000	658,000	-	4,892,000
U.S. Treasury and Agency Securities	-	2,390,768	-	2,390,768
Mortgage/Asset Backed Securities	-	338,940	-	338,940
Corporate Debt	4,154,209	4,145,483	-	8,299,692
Foreign Bonds	-	25,765	-	25,765
Stock/Equities	-	8,010,265	-	8,010,265
Open End Mutual Funds	-	11,159,517	-	11,159,517
Closed End Mutual Funds	-	1,701,410	-	1,701,410
REIT's/Tangibles	-	585,344	-	585,344
Alternative Investments (Hedge Funds)	-	359,142	-	359,142
Total Investments	<u>8,388,209</u>	<u>29,374,634</u>	<u>-</u>	<u>37,762,843</u>
Total Cash, Cash Equivalents and Investments	<u>\$ 12,062,733</u>	<u>\$ 33,678,118</u>	<u>\$ 12,524</u>	<u>\$ 45,753,375</u>

Deposits -

Act 217 PA 1982, as amended, authorizes the Township to deposit in certificate of deposit, saving accounts depository accounts, or depository receipts of a state or nationally chartered bank or state or federal chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintain a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended by section 21.145 and 21.146 of the Michigan Compiled Laws.

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):

Custodial Credit Risk – Deposits - Custodial credit risk for deposits is the risk that in the event of a bank failure, the Township's deposits may not be returned. As an indication of the level of deposit custodial credit risk assumed by the Township, as of December 31, 2006, the book value of the Township's deposits was \$8,119,459 with a corresponding bank balance of \$8,064,996. Insured deposits were \$490,394, and the remaining \$7,702,049 was uninsured and uncollateralized.

The Township's investment policy allows for the use of bank deposits, including certificates of deposit. There are no limitations placed on the use of bank deposits or the amount that can be deposited with any financial institution.

The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution and assesses the level of risk. The Township uses only those financial institutions with an acceptable estimated risk level as depositories.

Investments -

The Township's investment policy and Act 20 of the Michigan Public Acts of 1943, as amended, authorizes the City to invest surplus funds in bonds, securities and other direct obligations of the United States government or an agency or instrumentality of the United States; certificates of deposits, savings accounts, deposit accounts or depository receipts of a financial institution only if the bank, savings and loan association, or credit union is eligible to be a depository of funds belonging to the State; bankers' acceptance of United States banks; commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services, which mature not more than 270 days after the date of purchase; mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the surplus funds investment pool act, 1982 PA 3657, 129.111 to 129.118; investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

The Township policy is to invest in a manner which will ensure the preservation of principle, while providing the highest investment return with maximum security, meeting daily cash flow requirements of the Township and conforming to all statutes governing the investment of public funds.

Cash and investments of the Township's retirement system are subject to the requirements of the Public Employee Retirement System Investments Act (MCL 38.1132).

Credit Risk – Investments – is the risk that an issuer of or other counterparty to an investment will not fulfill its obligations.

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):

The Township investment policy and state law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical organizations for the primary government. The Harrison Township Employees Pension System specifies that all debt securities must have a qualifying rating of BBB (or equivalent) or above by one of the major rating agencies at the time of issue. The Harrison Township Firefighter's Pension System specifies that all debt securities must have a qualifying rating of A or better at the time of purchase. As of year-end, the credit quality ratings of investments are as follows:

Investments	Fair Market Value		Rating	Rating Organization
	Primary Government	Fiduciary Unit		
Corporate Debt	\$ 1,657,996	\$ 304,157	AAA	S & P
Mortgage and Asset Backed Securities	-	338,940	AAA	S & P
Corporate Debt	2,496,213	587,102	AA-	S & P
Corporate Debt	-	247,888	A+	S & P
Corporate Debt	-	517,738	A	S & P
Corporate Debt	-	175,886	A-	S & P
Foreign Bond	-	25,765	A-	S & P
Corporate Debt	-	637,165	BBB+	S & P
Corporate Debt	-	646,790	BBB	S & P
Corporate Debt	-	129,195	BBB-	S & P
Corporate Debt	-	288,573	B+	S & P
Corporate Debt	-	146,640	BB+	S & P
Corporate Debt	-	95,160	BB	S & P
Corporate Debt	-	67,867	B	S & P
Corporate Debt	-	111,550	B-	S & P
Corporate Debt	-	53,452	B-	S & P
Corporate Debt	-	136,320	CCC+	S & P

Custodial Credit Risk – Investments – is the risk that in the event of the failure of the counterparty, the Township may not be able to recover the value of its investments that are in the possession of another party. The Township's policy requires that securities may be held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts. As of December 31, 2006, \$37,762,843 of investments were held in third-party safekeeping not in the Township's name; however, they were evidenced by safekeeping receipts.

Concentration of Credit Risk – Investments – is the risk of loss attributed to the magnitude of the Township's investment in a single issuer.

Primary Government – The Township places no limits on the amounts the Township may invest with a single issuer.

Fiduciary Units – The Harrison Township Employees' Pension System requires that certain minimums and maximums may be invested in any asset class (Equities, Fixed Income Securities, and Cash and Cash Equivalents). Also, securities of any one company should not exceed 5% of the total fund, and no more than 20% of the fund should be invested in any one industry, with the exception of securities issued by the U.S. Government, its agencies, government sponsored enterprises, and mutual funds, which are excluded from this requirement.

The Harrison Township Firefighter's Pension System specifies that certain minimums and maximums may be invested in any asset class (Equities, Bonds, Cash). Also, no more than \$500,000 or 10% of the fund, whichever is greater, may be invested in any one company.

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):

Interest Rate Risk – Investments – is the risk that the value of investments will decrease as a result of a rise in the interest rates. The investment policy adopted by the Township for the primary government specifies the investment portfolio shall be designed with the objective of obtaining a rate of return throughout the budgetary and economic cycle taking into account the investment risk contracts and cash flow characteristics of the portfolio. At year-end, the Township's investments had the following range of maturity dates:

Investment Type	Fair Value	Maturity (Years)			
		<1	1-5	6-10	>10
Primary Government					
Certificates of Deposit	\$ 4,234,000	\$ 4,234,000	\$ -	\$ -	\$ -
Corporate Debt	<u>4,154,209</u>	<u>4,154,209</u>	-	-	-
Total Primary					
Government	<u>8,388,209</u>	<u>8,388,209</u>	-	-	-
Fiduciary Government					
Certificates of Deposit	658,000	658,000	-	-	-
U.S. Treasury Securities	2,390,768	49,937	4,963	80,458	2,255,410
Mortgage and Asset Backed					
Securities	338,940	-	89,983	248,957	-
Corporate Debt – Other	4,145,483	1,596,111	1,190,866	841,356	517,150
Foreign Bond	<u>25,765</u>	-	-	-	<u>25,765</u>
Total Fiduciary					
Government	<u>7,558,956</u>	<u>2,304,048</u>	<u>1,285,812</u>	<u>1,170,771</u>	<u>2,798,325</u>
Total Reporting Entity					
Investments	<u>\$ 15,947,165</u>	<u>\$10,692,257</u>	<u>\$ 1,285,812</u>	<u>\$ 1,170,771</u>	<u>\$ 2,798,325</u>

NOTE 4 - RECEIVABLES:

Receivables in the governmental and business-type activities are as follows:

	Governmental Activities	Business-type Activities
Taxes	\$ 1,757,679	\$ -
Special Assessments	6,116,472	-
Accounts and Interest	377,521	1,305,538
Intergovernmental	<u>709,896</u>	<u>10,000</u>
	<u>\$ 8,961,568</u>	<u>\$ 1,315,538</u>

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE 4 – RECEIVABLES – (cont'd):

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned or are received in advance of the period they are intended to finance. At the end of the current fiscal year the components of deferred revenue and unearned revenue reported in the governmental funds was as follows:

	<u>Unavailable</u>	<u>Unearned</u>
General Fund		
Property Taxes	\$ 1,311	\$ 335,393
Fire Fund		
Property Taxes	18,990	4,920,783
Police Fund		
Property Taxes	4,777	1,274,726
Debt Service Fund		
Special Assessments	<u>978,595</u>	<u>-</u>
	<u>\$ 1,003,673</u>	<u>\$ 6,530,902</u>

NOTE 5 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS:

The composition of interfund balances as of December 31, 2006:

Due To/From Other Funds -

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Fire Fund	\$ 18,333 (1)
	Police Fund	19,793 (2)
	Water and Sewer Fund	58,113 (1)
	Special Assessment Revolving Fund	2,664 (4)
	Trust and Agency Fund	72,578 (4)
	Taxes Fund	33,222 (4)
Fire Fund	Water and Sewer Fund	250,000 (5)
	Trust and Agency Fund	418 (6)
Police Fund	Trust and Agency Fund	114 (6)
Special Assessment Capital Projects	Debt Service Fund	<u>220,000 (3)</u>
		<u>\$ 675,235</u>

(1) Amount due for reimbursement of expenditures/expenses

(2) Short-term borrowing of cash

(3) Year-end transfer/reclassification

(4) Interest income due to General Fund

(5) Amount due as a result of an asset transfer

(6) Delinquent Personal Property Tax

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE 5 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS – (cont'd):

Transfers From/To Other Funds -

Transfers In	Transfers Out	Amount
General Fund	Debt Service Fund	\$ 32,804 (1)
Debt Service	Fire Fund	93,425 (2)
	Special Assessment Capital Projects	121,461 (1)
Grant Fund	General Fund	46,280 (3)
Building and Site Fund	Fire Fund	33,220 (4)
Special Assessment Capital Projects	General Fund	<u>12,283 (1)</u>
		<u>\$ 339,473</u>

(1) To repay certain amounts from prior years and transfer assets to proper funds

(2) To pay debt payments

(3) Reimbursement of expense

(4) Transfer for capital improvements

NOTE 6 - CAPITAL ASSETS:

Primary Government

Capital asset activity of the primary government for the year ended December 31, 2006 was as follows:

	Jan. 1, 2006 Balance	Additions	Disposals/ Adjustments	Dec. 31, 2006 Balance
Governmental Activities:				
Capital Assets, not being depreciated,				
Land	<u>\$ 580,158</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 580,158</u>
Capital Assets being depreciated				
Buildings	3,606,999	249,017	18,626	3,837,390
Machinery and Equipment	2,896,172	699,224	322,265	3,273,131
Infrastructure – Storm Drains	<u>691,193</u>	<u>-</u>	<u>-</u>	<u>691,193</u>
Total capital assets being depreciated	<u>7,194,364</u>	<u>948,241</u>	<u>340,891</u>	<u>7,801,714</u>
Less accumulated depreciation				
Buildings	648,118	112,816	16,200	744,734
Machinery and Equipment	2,034,154	190,356	308,269	1,916,241
Infrastructure – Storm Drains	<u>153,974</u>	<u>13,824</u>	<u>-</u>	<u>167,798</u>
Total accumulated depreciation	<u>2,836,246</u>	<u>316,996</u>	<u>324,469</u>	<u>2,828,773</u>
Total capital assets being depreciated, net	<u>4,358,118</u>	<u>631,245</u>	<u>16,422</u>	<u>4,972,941</u>
Governmental activities capital assets, net	<u>\$ 4,938,276</u>	<u>\$ 631,245</u>	<u>\$ 16,422</u>	<u>\$ 5,553,099</u>

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE 6 – CAPITAL ASSETS – (cont'd):

	Jan. 1, 2006 <u>Balance</u>	<u>Additions</u>	Disposals/ <u>Adjustments</u>	Dec. 31, 2006 <u>Balance</u>
Business-type Activities:				
Capital Assets not being depreciated				
Land	\$ 704,292	\$ -	\$ -	\$ 704,292
Construction in progress	<u>84,237</u>	<u>263,543</u>	<u>269,514</u>	<u>78,266</u>
Total capital assets being depreciated	<u>788,529</u>	<u>263,543</u>	<u>269,514</u>	<u>782,558</u>
Capital Assets being depreciated				
Buildings	691,859	-	2,310	689,549
Machinery and equipment	2,336,096	147,599	39,830	2,443,865
Water mains and lines	10,817,624	141,611	-	10,959,235
Sewer mains and lines	23,420,447	127,902	-	23,548,349
Sprinkler (water main improvement)	<u>70,656</u>	<u>-</u>	<u>-</u>	<u>70,656</u>
Total capital assets being depreciated	<u>37,336,682</u>	<u>417,112</u>	<u>42,140</u>	<u>37,711,654</u>
Less accumulated depreciation				
Buildings	301,506	16,360	2,310	315,556
Machinery and equipment	1,898,086	212,995	33,894	2,077,187
Water mains and lines	4,043,575	221,208	-	4,264,783
Sewer mains and lines	10,717,159	470,222	-	11,187,381
Sprinkler (water main improvement)	<u>14,837</u>	<u>1,413</u>	<u>-</u>	<u>16,250</u>
Less accumulated depreciation	<u>16,975,163</u>	<u>922,198</u>	<u>36,204</u>	<u>17,861,157</u>
Total capital assets being depreciated, Net	<u>20,361,519</u>	<u>(505,086)</u>	<u>5,936</u>	<u>19,850,497</u>
Business activities capital assets, net	<u>\$ 21,150,048</u>	<u>\$ (241,543)</u>	<u>\$ 275,450</u>	<u>\$20,633,055</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General Government	\$ 79,070
Public Safety	207,060
Public Works	13,824
Community and Economic Development	1,266
Recreation and Culture	<u>15,776</u>
Total depreciation expense – governmental activities	<u>\$ 316,996</u>
Business-type Activities:	
Water Fund	\$ 222,620
Sewer Fund	<u>699,578</u>
Total depreciation expense-business-type activities	<u>\$ 922,198</u>

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE 7 – LONG-TERM DEBT:

The following is a summary of charges in long-term liabilities (including current parties) for the year ended December 31, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities					
General obligation bonds:					
2002 Fire Station Unlimited Tax General Obligation Bonds					
Amount of issue: \$995,000					
Maturing through March 1, 2017					
Interest rate ranges: 4.50% - 5.20%	\$ 920,000	\$ -	\$ 50,000	\$ 870,000	\$ 50,000
Special assessment bonds:					
1998 Paving District No. 199, 200 and 201 Limited Tax Bonds					
Amount of issue: \$515,000					
Maturing through March 1, 2008					
Interest rate ranges: 4.30% - 6.00%	160,000	-	55,000	105,000	50,000
2001 Paving District No. 202 Limited Tax Bonds					
Amount of issue: \$205,000					
Maturing through: February 1, 2011					
Interest rate ranges: 3.80% - 4.70%	125,000	-	20,000	105,000	25,000
2002 Paving District No. 203 Limited Tax Bonds					
Amount of issue: \$420,000					
Maturing through: February 1, 2012					
Interest rate ranges: 3.75% - 6.75%	305,000	-	45,000	260,000	45,000
2004 Dredging District No. 204 Limited Tax Bonds					
Amount of issue: \$225,000					
Maturing through: February 1, 2014					
Interest rate ranges: 3.20% - 6.20%	210,000	-	25,000	185,000	25,000
2005 Lakeshore/Lakeville No. 205 Limited Tax Bonds					
Amount of issue: \$220,000					
Maturing through: October 1, 2015					
Interest rate ranges: 4.00% - 4.50%	220,000	-	15,000	205,000	25,000
2006 Venice Shores No. 206 Limited Tax Bonds					
Amount of issue: \$950,000					
Maturing through: February 1, 2016					
Interest rate ranges: 4.125% - 4.25%	\$ -	\$ 950,000	\$ -	\$ 950,000	\$ 75,000
Other long-term obligations					
Capital leases					
Breathing apparatus	78,635	-	25,346	53,289	26,740
Fire Truck	-	300,000	95,852	204,148	99,942
Compensated absences	<u>712,297</u>	<u>547,222</u>	<u>523,500</u>	<u>736,019</u>	<u>-</u>
Total governmental activities	2,730,932	1,797,222	854,698	3,673,456	421,682
Business Activities					
Compensated absences	<u>66,224</u>	<u>84,379</u>	<u>86,743</u>	<u>63,860</u>	<u>-</u>
	<u>\$ 2,797,156</u>	<u>\$1,881,601</u>	<u>\$ 941,441</u>	<u>\$3,737,316</u>	<u>\$ 421,682</u>

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE 7 – LONG-TERM DEBT – (cont'd):

Annual Debt Requirements:

The annual requirements to pay the debt outstanding at December 31, 2006 for the following bonds and notes (excluding compensated absences) are as follows:

	G.O. Bond		S.A. Bond		Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 50,000	\$ 41,163	\$ 245,000	\$ 90,341	\$ 126,682	\$ 9,658
2008	50,000	38,888	265,000	59,576	130,755	3,923
2009	75,000	36,044	210,000	49,661	-	-
2010	75,000	32,613	215,000	40,854	-	-
2011	75,000	29,144	210,000	32,030	-	-
2012-2016	445,000	86,138	665,000	61,276	-	-
2017-2021	<u>100,000</u>	<u>2,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 870,000</u>	<u>\$ 266,590</u>	<u>\$1,810,000</u>	<u>\$ 333,738</u>	<u>\$ 257,437</u>	<u>\$ 13,581</u>

NOTE 8 – RISK MANAGEMENT:

Property and Liability -

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Township has purchased commercial insurance for medical benefits, participates in the Michigan Municipal League risk pool for claims related to workers' compensation, and the Michigan Townships Participating Plan for general liability claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

Health Care Costs -

The Township is self-insured for health care benefits for all employees (and their families) up to \$2,000. The Township has purchased through Blue Cross Blue Shield of Michigan (BCBS) insurance coverage in excess of \$1,000 and \$2,000 for single and family plan employees, respectively, which are paid for by the Township through a third party administrator in order to reduce the overall cost of the Township's health care insurance premiums. The current year costs of the administration and benefits were \$47,489 and \$179,384, respectively.

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS:

Plan Description -

Employees' Retirement System. The Employee's Retirement System is a single-employer defined benefit pension plan that is administered by the Charter Township of Harrison Employees' Retirement System Pension Board. This plan covers substantially all full-time employees (except firemen) of the Township. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at L'Anse Creuse Road, Harrison Township, MI 48045.

Firemen's Pension Fund. The Firemen's Pension Fund is a single-employer defined benefit pension plan that is administered by the Charter Township of Harrison Firemen's Pension Board. This plan covers substantially all full-time employees of the Charter Township of Harrison fire department. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained in writing to the system at L'Anse Creuse Road, Harrison Township, MI 48045.

Eligibility -

Employees' Retirement System. The Plan provides eligible participants with retirement benefits as well as disability benefits. All retirement benefits fully vest after age 55, with 8 years of service, or completion of 25 years of service, whichever is earliest. Once vested, employees are entitled to an annual retirement benefit, payable monthly in an amount equal to 2.5% of final average compensation (FAC) times first 25 years of service plus 1% of FAC times years of service in excess of 25 years.

At December 31, 2005, the Plan Participants consisted of:

Retirees and beneficiaries currently receiving benefits	41
Terminated plan members entitled to but not yet receiving benefits	10
Active plan member	<u>40</u>
Total	<u><u>91</u></u>

Firemen's Pension Fund. The Plan provides eligible participants with retirement benefits as well as disability benefits. All retirement benefits fully vest after 20 years of credited service, with partial vesting granted for service 10 and 20 years. Employees who retire at age 55 are entitled to an annual retirement benefit, payable monthly in an amount equal to 2.8% of 3-year average final compensation (AFC) times first 20 years of service plus 1.8% of AFC times years of service in excess of 20 years, up to 25 years plus 1% of AFC times years of service in excess of 25 years, up to 30 years. Maximum benefit is 70% times AFC.

At December 31, 2005, the Plan Participants consisted of:

Retirees and beneficiaries currently receiving benefits	25
Terminated plan members entitled to but not yet receiving benefits	1
Active plan members	<u>28</u>
Total	<u><u>54</u></u>

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS – (cont'd):

Investments -

Employees' Retirement System. The Township maintains an investment policy for the Plan that provides the following Aggregate System Asset Allocation Guidelines (at market value):

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Target</u>
Equities	20 %	70 %	65.0 %
Fixed Income	25	40	34.5
Cash and Equivalents	0	10	0.5

Firemen's Pension Fund. The Township maintains an investment policy for the Plan, which permits up to 60% of Pension Trust Fund assets to be invested in high quality fixed income securities and 25% to 70% in equity type securities.

Required Contributions -

Employees' Retirement System. The obligation to contribute to and maintain the system for these employees was established by negotiation with the Township's competitive bargaining units and requires a contribution from the employees of 5% gross wages. The funding policy provides for periodic employer contributions at actuarially determined rates; the current rate is 18.56% of covered payroll.

Firemen's Pension Fund. The obligation to contribute to and maintain the system for these employees was established by negotiation with the Township's competitive bargaining units and requires a contribution from the employees of 5% of gross wages. The funding policy provides for periodic employer contributions at actuarially determined rates; the current rate is 20.74% of covered payroll.

Summary of Significant Accounting Policies -

a. *Basis of Accounting* -

Employees' Retirement System and Firemen's Pension Fund. The Plan's financial statements are prepared using the accrual basis of accounting. The Township's contributions to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. The administrative costs are financed through investment earnings.

b. *Method Used to Value Investments* -

Employees' Retirement System and Firemen's Pension Fund. Equity investments and bonds are reported at fair value. GIC investments are valued at estimated fair value. The investments of both plans are not federally insured.

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE 9 – EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS – (cont'd):

c. Annual Pension Cost and Net Pension Obligation

Employees' Retirement System. For the year ended December 31, 2006, the Township's annual pension cost of \$353,258 for the plan was equal to the Township's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age actuarial cost method. Significant actuarial assumptions include (a) 7% investment rate of return, (b) projected salary increases of 5% to 8.8% per year, and (c) cost of living adjustments for supervisory employees of 10% after 5 and 10 years. Both (a) and (b) include an inflation component of 5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized using the level percent open method. The remaining amortization period is 27 years.

Firemen's Pension Fund. For the year ended December 31, 2006, the Township's annual pension cost of \$409,663 for the plan was equal to the Township's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age actuarial cost method. Significant actuarial assumptions include (a) a 7.5% investment rate of return, and (b) a projected salary increase of 5.5% per year. There is no adjustment for cost of living. Both (a) and (b) include an inflation component of 5.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized using the level percent open method. The remaining amortization period is 30 years.

Trend Information -

Employees' Retirement System

Asset Class	Annual Pension Percentage of APC		Net Pension Obligation
	Cost (APC)	Contributed	
12/31/04	\$ 330,751	100 %	\$ -
12/31/05	314,665	100	-
12/31/06	353,258	100	-

Firemen's Pension Fund

Asset Class	Annual Pension Percentage of APC		Net Pension Obligation
	Cost (APC)	Contributed	
12/31/04	\$ 410,281	100 %	\$ -
12/31/05	436,636	100	-
12/31/06	409,663	100	-

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS:

In addition to providing pension benefits, the Township provides certain health care and life insurance benefits for retired employees as established by collective bargaining agreement with local union organizations as approved by the board. Currently, 64 retirees are eligible. The Township includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participants who retired prior to January 4, 1996. Contributions for participants who retire after January 3, 1996 will be funded by the Township based on years of service as follows: 10 years and under – 25 percent; 11 years through 14 years – 50 percent; over 15 years – 100 percent. The Township recognizes the cost of providing these benefits by expensing the annual healthcare and insurance billings, which were \$639,492 for 2006.

CHARTER TOWNSHIP OF HARRISON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006

NOTE 11 – PRIOR PERIOD ADJUSTMENT:

Due to corrections made for the prior year, the Township has restated the beginning net assets and fund balances for the following funds and governmental activities. The effect on the beginning fund balances and net assets is as follows:

General Fund:

Prior year fund balance as previously stated	\$ 3,512,238
To recognize interest earned on tax bank account that should have been recorded in 2005	<u>24,308</u>
Adjusted beginning net assets	<u>\$ 3,536,546</u>

Grant Fund:

Prior year net assets as previously stated	\$ 15,249
Adjustment to recognize SMART funding for the January 2006 payment that should have been recognized in 2005	<u>25,957</u>
Adjusted beginning net assets	<u>\$ 41,206</u>

Governmental Activities:

Prior year net assets as previously stated	\$ 9,218,845
To recognize interest earned on tax bank account that should have been recorded in 2005	24,308
To recognize SMART funding for the January 2006 payment that should have been recognized in 2005	25,957
To adjust accumulated depreciation on machinery and equipment overstated in prior periods	191,815
To recognize additional liability regarding accrued sick and vacation obligation for governmental employees	(89,119)
Adjusted beginning net assets	<u>\$ 9,371,806</u>

NOTE 12 – SUBSEQUENT EVENTS:

On March 30, 2007, the Township entered into an agreement to purchase 155.6 acres of land located within the Township to close on April 15, 2007. The purchase price of the property is \$1,800,000 of which the Township elected to finance half of the purchase price of the property through an installment purchase agreement signed May 14, 2007 for \$900,000 with payments of \$12,302 due monthly beginning June 14, 2007. The Installment purchase agreement is for a term of 84 month with interest of 4.0%

REQUIRED SUPPLEMENTARY INFORMATION

CHARTER TOWNSHIP OF HARRISON
Macomb County, Michigan

EMPLOYEES' RETIREMENT SYSTEM
(Unaudited)

Schedule of Funding Progress

Actuarial Valuation Date (December 31)	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Attained Age	(b-a) Unfunded Actuarial Accrued Liability (Asset)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a/c) UAAL as a % of Covered Payroll
12/31/1998	\$ 8,901,842	\$ 9,334,519	\$ 432,677	95.4%	\$ 2,001,643	21.6%
12/31/1999	9,508,833	10,065,818	556,985	94.5%	2,076,516	26.8%
12/31/2000	10,086,683	10,584,130	497,447	95.3%	2,129,790	23.4%
12/31/2001	10,603,709	11,437,172	833,463	92.7%	2,271,123	36.7%
12/31/2002	10,851,905	12,188,641	1,336,736	89.0%	2,544,024	52.5%
12/31/2003	11,274,486	12,823,259	1,548,773	87.9%	2,292,453	67.6%
12/31/2004	11,702,984	13,502,202	1,799,218	86.7%	1,793,292	100.3%
12/31/2005	11,925,599	14,588,605	2,663,006	81.7%	1,899,436	140.2%

Schedule of Employer Contributions

Fiscal Year Ended (June 30)	Annual Required Contribution	Actual Annual Contribution	Percent Contributed
1998	\$ 302,880	\$ 302,880	100.0%
1999	315,935	315,935	100.0%
2000	329,489	329,489	100.0%
2001	370,395	370,395	100.0%
2002	437,514	437,514	100.0%
2003	312,506	312,506	100.0%
2004	330,751	330,751	100.0%
2005	314,665	314,665	100.0%
2006	353,258	353,258	100.0%

CHARTER TOWNSHIP OF HARRISON
Macomb County, Michigan

FIREMEN'S PENSION FUND
(Unaudited)

Schedule of Funding Progress

Actuarial Valuation Date (December 31)	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Attained Age	(b-a) Unfunded Actuarial Accrued Liability (Asset)	(a/b) Funded Ratio	(c) Covered Payroll	((b-a/c) UAAL as a % of Covered Payroll
12/31/1998	\$ 10,305,241	\$ 10,714,962	\$ 409,721	96.2%	\$ 1,482,110	27.6%
12/31/1999	11,111,722	11,091,891	(19,831)	100.2%	1,636,166	-1.2%
12/31/2000	11,916,284	12,028,593	112,309	99.1%	1,828,011	6.1%
12/31/2001	12,483,861	12,291,086	(192,775)	101.6%	1,678,054	-11.5%
12/31/2002	12,816,039	12,921,489	105,450	99.2%	1,949,550	5.4%
12/31/2003	13,592,377	13,706,190	113,813	99.2%	2,046,793	5.6%
12/31/2004	14,400,476	14,294,856	(105,620)	100.7%	1,863,799	(5.7)%
12/31/2005	14,821,085	15,779,232	958,147	93.9%	1,992,634	48.1%

Schedule of Employer Contributions

Fiscal Year Ended (June 30)	Annual Required Contribution	Actual Annual Contribution	Percent Contributed
1998	\$ 360,499	\$ 360,499	100.00%
1999	380,264	380,264	100.00%
2000	362,451	362,451	100.00%
2001	345,071	345,071	100.00%
2002	429,662	429,662	100.00%
2003	437,191	437,191	100.00%
2004	410,281	410,281	100.00%
2005	436,636	436,636	100.00%
2006	409,663	409,663	100.00%

CHARTER TOWNSHIP OF HARRISON
Macomb County, Michigan

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Taxes	\$ 281,651	\$ 281,651	\$ 269,841	\$(11,810)
Licenses and permits	259,440	273,300	315,156	41,856
Intergovernmental	1,955,159	1,941,299	1,992,021	50,722
Charges for services	108,265	108,265	163,550	55,285
Fines and forfeits	111,900	111,900	48,434	(63,466)
Interest and rent	50,000	92,800	286,511	193,711
Other revenues	65,965	72,712	182,582	109,870
Total Revenues	<u>2,832,380</u>	<u>2,881,927</u>	<u>3,258,095</u>	<u>376,168</u>
Expenditures:				
General Government -				
Administration	636,207	608,413	493,504	114,909
Township Board	38,966	38,966	41,311	(2,345)
Supervisor	148,875	150,875	152,851	(1,976)
Elections	183,918	183,918	143,578	40,340
Assessor	338,220	356,366	362,150	(5,784)
Attorney	133,000	133,000	132,623	377
Clerk	205,366	207,616	196,471	11,145
Accounting	275,512	277,010	260,365	16,645
Cable television committee	4,550	21,050	21,719	(669)
Zoning Board	9,750	24,200	17,499	6,701
Treasurer	378,660	387,660	395,126	(7,466)
Grounds, hall and equipment	229,936	239,937	243,260	(3,323)
Ordinance	120,287	123,036	111,570	11,466
	<u>2,703,247</u>	<u>2,752,047</u>	<u>2,572,027</u>	<u>180,020</u>
Less: Reimbursement from other funds	<u>(164,335)</u>	<u>(164,335)</u>	<u>(164,335)</u>	<u>-</u>
	<u>2,538,912</u>	<u>2,587,712</u>	<u>2,407,692</u>	<u>180,020</u>
Public Safety -				
Planning Commission	<u>103,467</u>	<u>103,467</u>	<u>91,213</u>	<u>12,254</u>
Public Works -				
Highways and streets	44,100	40,847	27,086	13,761
Engineering	25,000	25,000	13,658	11,342
Drains at large and watershed	37,500	37,500	33,346	4,154
	<u>106,600</u>	<u>103,347</u>	<u>74,090</u>	<u>29,257</u>

Continued

CHARTER TOWNSHIP OF HARRISON
Macomb County, Michigan

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Expenditures - (cont'd):				
Recreation and Cultural -				
Parks and recreation	\$ 17,600	\$ 21,600	\$ 24,068	\$ (2,468)
Beautification Commission	1,000	1,000	986	14
	<u>18,600</u>	<u>22,600</u>	<u>25,054</u>	<u>(2,454)</u>
 Total Expenditures	 <u>2,767,579</u>	 <u>2,817,126</u>	 <u>2,598,049</u>	 <u>219,077</u>
 Excess of revenues over expenditures	 <u>64,801</u>	 <u>64,801</u>	 <u>660,046</u>	 <u>595,245</u>
 Other Financing Sources (Uses):				
Transfer from other funds	-	-	32,804	32,804
Transfers to other funds	(64,801)	(64,801)	(58,563)	6,238
	<u>(64,801)</u>	<u>(64,801)</u>	<u>(25,759)</u>	<u>39,042</u>
 Net Change in Fund Balance	 <u>-</u>	 <u>-</u>	 <u>634,287</u>	 <u>634,287</u>
 Fund Balance at beginning of year	 3,512,238	 3,512,238	 3,512,238	 -
 Prior period adjustments	 <u>-</u>	 <u>-</u>	 <u>24,308</u>	 <u>24,308</u>
 Fund Balance at beginning of year as restated	 <u>3,512,238</u>	 <u>3,512,238</u>	 <u>3,536,546</u>	 <u>24,308</u>
 Fund Balance at end of year	 <u>\$ 3,512,238</u>	 <u>\$ 3,512,238</u>	 <u>\$ 4,170,833</u>	 <u>\$ 658,595</u>

Concluded

CHARTER TOWNSHIP OF HARRISON
Macomb County, Michigan

FIRE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Taxes	\$ 4,511,244	\$ 4,604,669	\$ 4,604,278	\$(391)
Intergovernmental - Federal/State	-	-	59,729	59,729
Charges for services	270,250	272,950	326,522	53,572
Interest	40,000	46,000	112,468	66,468
Other	2,000	2,000	55,157	53,157
	<u>\$ 4,823,494</u>	<u>\$ 4,925,619</u>	<u>5,158,154</u>	<u>232,535</u>
Expenditures:				
Public Safety -	4,853,494	5,272,427	5,024,196	248,231
Debt Service				
Principal	-	-	121,198	(121,198)
Interest and fees	-	-	10,732	(10,732)
	<u>4,853,494</u>	<u>5,272,427</u>	<u>5,156,126</u>	<u>116,301</u>
Excess of revenues over (under) expenditures	<u>(30,000)</u>	<u>(346,808)</u>	<u>2,028</u>	<u>348,836</u>
Other financing sources (uses)				
Transfers to other funds	-	(93,425)	(126,645)	(33,220)
Proceeds from bond issuance	-	300,000	300,000	-
Total of other financing sources (uses)	<u>-</u>	<u>206,575</u>	<u>173,355</u>	<u>(33,220)</u>
Net change in fund balance	<u>(30,000)</u>	<u>(140,233)</u>	<u>175,383</u>	<u>315,616</u>
Fund Balance at beginning of year	<u>686,006</u>	<u>686,006</u>	<u>686,006</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 656,006</u>	<u>\$ 545,773</u>	<u>\$ 861,389</u>	<u>\$ 315,616</u>

CHARTER TOWNSHIP OF HARRISON
Macomb County, Michigan

POLICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Property taxes	\$ 1,255,479	\$ 1,255,479	\$ 1,255,345	\$ (134)
Interest	4,000	4,000	28,283	24,283
	<u>1,259,479</u>	<u>1,259,479</u>	<u>1,283,628</u>	<u>24,149</u>
Expenditures:				
Public Safety -				
Contracted services	<u>1,263,518</u>	<u>1,263,518</u>	<u>1,269,352</u>	<u>(5,834)</u>
Excess of revenues over (under) expenditures	(4,039)	(4,039)	14,276	18,315
Fund Balance at beginning of year	<u>67,658</u>	<u>67,658</u>	<u>67,658</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 63,619</u></u>	<u><u>\$ 63,619</u></u>	<u><u>\$ 81,934</u></u>	<u><u>\$ 18,315</u></u>

SUPPLEMENTARY INFORMATION

CHARTER TOWNSHIP OF HARRISON
Macomb County, Michigan

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2006

		Special Revenue Funds		
		Grant	Parks & Recreation	Building Inspections
ASSETS				
Current assets -				
Cash and cash equivalents	\$	16,934	\$ 21,184	\$ 71,279
Investments		-	-	90,000
Receivables -				
Interest and accounts		189	136	2,673
Due from other governmental units		66,575	-	-
Due from other funds		-	-	-
		<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	\$	<u>83,698</u>	\$ <u>21,320</u>	\$ <u>163,952</u>
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$	227	\$ -	\$ 1,846
Accrued liabilities		1,647	-	8,066
Due to other funds		-	-	-
Total Liabilities		<u>1,874</u>	<u>-</u>	<u>9,912</u>
Fund Balance:				
Reserved-				
Capital Projects		-	-	-
Unreserved -				
Undesignated		81,824	21,320	154,040
Total Fund Balance		<u>81,824</u>	<u>21,320</u>	<u>154,040</u>
Total Liabilities and Fund Balance	\$	<u>83,698</u>	\$ <u>21,320</u>	\$ <u>163,952</u>

Capital Projects Funds

<u>Building and Site</u>	<u>Special Assessments Capital Projects</u>	<u>Special Assessments Revolving</u>	<u>Total</u>
\$ 6,767	\$ 212,147	\$ 15,526	\$ 343,837
-	-	50,000	140,000
-	-	15,316	18,314
-	-	-	66,575
-	220,000	-	220,000
<u>\$ 6,767</u>	<u>\$ 432,147</u>	<u>\$ 80,842</u>	<u>\$ 788,726</u>

\$ -	\$ 177,671	\$ -	\$ 179,744
-	-	-	9,713
-	-	2,664	2,664
<u>-</u>	<u>177,671</u>	<u>2,664</u>	<u>192,121</u>

6,767	254,476	78,178	339,421
-	-	-	257,184
<u>6,767</u>	<u>254,476</u>	<u>78,178</u>	<u>596,605</u>
<u>\$ 6,767</u>	<u>\$ 432,147</u>	<u>\$ 80,842</u>	<u>\$ 788,726</u>

CHARTER TOWNSHIP OF HARRISON

Macomb County, Michigan

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2006

	Special Revenue Funds		
	Grant	Parks & Recreation	Building Inspections
Revenues:			
Licenses and permits	\$ -	\$ -	\$ 500,163
Intergovernmental -			
Federal/State	127,468	-	-
Charges for services	-	-	122,721
Interest and rent	1,004	1,187	10,348
Special Assessments	-	-	-
Other	1,431	-	18,208
Total Revenues	<u>129,903</u>	<u>1,187</u>	<u>651,440</u>
	-		
Expenditures:			
Current -			
Public Safety	-	-	636,416
Public Works	-	-	-
Community and Economic Development	135,565	-	-
Total Expenditures	<u>135,565</u>	<u>-</u>	<u>636,416</u>
Excess of revenues over (under)			
expenditures	<u>(5,662)</u>	<u>1,187</u>	<u>15,024</u>
Other Financing Sources (Uses):			
Bond Proceeds	-	-	-
Transfers to other funds	-	-	-
Transfers from other funds	46,280	-	-
	<u>46,280</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>40,618</u>	<u>1,187</u>	<u>15,024</u>
Fund Balances at beginning of year	15,249	20,133	139,016
Prior period Adjustments	<u>25,957</u>	<u>-</u>	<u>-</u>
Fund Balances at beginning of year as restated	<u>41,206</u>	<u>20,133</u>	<u>139,016</u>
Fund Balances at end of year	<u>\$ 81,824</u>	<u>\$ 21,320</u>	<u>\$ 154,040</u>

Capital Projects Funds

<u>Building and Site</u>	<u>Special Assessments Capital Projects</u>	<u>Special Assessments Revolving</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 500,163
-	-	-	127,468
-	-	-	122,721
2,895	34,914	-	50,348
-	220,000	-	220,000
-	-	-	19,639
<u>2,895</u>	<u>254,914</u>	<u>-</u>	<u>1,040,339</u>
-	-	-	636,416
36,115	1,071,453	-	1,107,568
-	-	-	135,565
<u>36,115</u>	<u>1,071,453</u>	<u>-</u>	<u>1,879,549</u>
<u>(33,220)</u>	<u>(816,539)</u>	<u>-</u>	<u>(839,210)</u>
-	950,000	-	950,000
-	(121,461)	-	(121,461)
33,220	12,283	-	91,783
<u>33,220</u>	<u>840,822</u>	<u>-</u>	<u>920,322</u>
-	24,283	-	81,112
6,767	230,193	78,178	489,536
-	-	-	25,957
<u>6,767</u>	<u>230,193</u>	<u>78,178</u>	<u>515,493</u>
<u>\$ 6,767</u>	<u>\$ 254,476</u>	<u>\$ 78,178</u>	<u>\$ 596,605</u>

CHARTER TOWNSHIP OF HARRISON**Macomb County, Michigan****GRANT FUND****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****BUDGET AND ACTUAL****FOR THE YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Grant income	\$ 74,219	\$ 104,169	\$ 127,468	\$ 23,299
Interest and rent -	300	100	1,004	904
Other		200	1,431	1,231
	<u>74,519</u>	<u>104,469</u>	<u>129,903</u>	<u>25,434</u>
Expenditures:				
Community Development	<u>139,320</u>	<u>169,270</u>	<u>135,565</u>	<u>33,705</u>
Excess of revenues over (under) expenditures	(64,801)	(64,801)	(5,662)	59,139
Other Financing Sources:				
Transfers from other funds	<u>64,801</u>	<u>64,801</u>	<u>46,280</u>	<u>(18,521)</u>
Net Change in Fund Balance	<u>-</u>	<u>-</u>	<u>40,618</u>	<u>40,618</u>
Fund Balance at beginning of year	15,249	15,249	15,249	-
Prior period Adjustments	<u>-</u>	<u>-</u>	<u>25,957</u>	<u>25,957</u>
Fund Balance at beginning of year as restated	<u>15,249</u>	<u>15,249</u>	<u>41,206</u>	<u>25,957</u>
Fund Balance at end of year	<u>\$ 15,249</u>	<u>\$ 15,249</u>	<u>\$ 81,824</u>	<u>\$ 66,575</u>

CHARTER TOWNSHIP OF HARRISON
Macomb County, Michigan

PARKS & RECREATION FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Interest and rent -				
Interest on investment	\$ -	\$ -	\$ 1,187	\$ 1,187
	<u>-</u>	<u>-</u>	<u>1,187</u>	<u>1,187</u>
Expenditures:				
Recreation and Cultural	-	-	-	-
Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	-	-	1,187	1,187
Fund Balance at beginning of year	<u>20,133</u>	<u>20,133</u>	<u>20,133</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 20,133</u></u>	<u><u>\$ 20,133</u></u>	<u><u>\$ 21,320</u></u>	<u><u>\$ 1,187</u></u>

CHARTER TOWNSHIP OF HARRISON**Macomb County, Michigan****BUILDING INSPECTIONS FUND****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****BUDGET AND ACTUAL****FOR THE YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Licenses and permits	\$ 581,100	\$ 457,250	\$ 500,163	\$ 42,913
Charges for services	-	156,100	122,721	(33,379)
Interest	2,000	2,000	10,348	8,348
Other	-	-	18,208	18,208
	<u>583,100</u>	<u>615,350</u>	<u>651,440</u>	<u>36,090</u>
Expenditures:				
Public Safety -	<u>583,100</u>	<u>615,350</u>	<u>636,416</u>	<u>(21,066)</u>
Net Change in Fund Balance	-	-	15,024	15,024
Fund Balance at beginning of year	<u>139,016</u>	<u>139,016</u>	<u>139,016</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 139,016</u>	<u>\$ 139,016</u>	<u>\$ 154,040</u>	<u>\$ 15,024</u>

FIDUCIARY FUNDS

CHARTER TOWNSHIP OF HARRISON

Macomb County, Michigan

FIDUCIARY FUNDS COMBINING STATEMENT OF ASSETS AND LIABILITIES DECEMBER 31, 2006

Pension and Other Employee Benefit Trust Funds

	Firemen's Pension Trust	Employees' Retirement System Trust	Retiree Healthcare Fund	Total
Assets:				
Cash and cash equivalents	\$ 135,495	\$ -	\$ 81,961	\$ 217,456
Investments				
Certificates of deposit	-	-	433,000	433,000
U.S. treasury and agency securities	-	2,390,768	-	2,390,768
Mortgage/asset backed securities	-	338,940	-	338,940
Corporate debt	2,540,143	1,005,340	75,000	3,620,483
Foreign bonds	-	25,765	-	25,765
Stock/equities	891,240	7,119,025	-	8,010,265
Open end mutual funds	10,311,129	848,388	-	11,159,517
Closed end mutual funds	924,164	777,246	-	1,701,410
REIT's / Tangibles	585,344	-	-	585,344
Alternative investments (hedge funds)	359,142	-	-	359,142
Receivables:				
Pending trades	-	251,009	-	251,009
Accrued interest	11,152	25,510	3,799	40,461
Total assets	<u>\$ 15,757,809</u>	<u>\$ 12,781,991</u>	<u>\$ 593,760</u>	<u>\$ 29,133,560</u>
Liabilities:				
Due to other funds	\$ -	\$ -	\$ -	\$ -
Due to other governmental units	-	-	-	-
Cash bonds and deposits	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Assets:				
Held in trust for pension benefits and other purposes	<u>\$ 15,757,809</u>	<u>\$ 12,781,991</u>	<u>\$ 593,760</u>	<u>\$ 29,133,560</u>

Agency Funds

Tax Receiving	Trust and Agency	Total
\$ 3,826,699	\$ 259,329	\$ 4,086,028
-	225,000	225,000
-	-	-
-	-	-
-	525,000	525,000
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	7,930	7,930
<u>\$ 3,826,699</u>	<u>\$ 1,017,259</u>	<u>\$ 4,843,958</u>
\$ 33,222	\$ 73,110	106,332
-	36,979	36,979
3,793,477	907,170	4,700,647
<u>\$ 3,826,699</u>	<u>\$ 1,017,259</u>	<u>\$ 4,843,958</u>

CHARTER TOWNSHIP OF HARRISON
Macomb County, Michigan

FIDUCIARY FUNDS
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Firemen's Pension Trust</u>	<u>Employees' Retirement System Trust</u>	<u>Retiree Healthcare Fund</u>	<u>Total</u>
Additions:				
Contributions				
Employer contributions	\$ 409,663	\$ 353,259	\$ 194,792	\$ 957,714
Plan Member contributions	98,903	97,869	-	196,772
Total contributions	<u>508,566</u>	<u>451,128</u>	<u>194,792</u>	<u>1,154,486</u>
Investment income				
Net appreciation in fair value	1,032,201	1,414,984	-	2,447,185
Interest	955,180	318,285	24,499	1,297,964
Total investment income	1,987,381	1,733,269	24,499	3,745,149
Less investment expense	<u>(8,852)</u>	<u>(67,392)</u>	<u>-</u>	<u>(76,244)</u>
Net investment income	<u>1,978,529</u>	<u>1,665,877</u>	<u>24,499</u>	<u>3,668,905</u>
Total Additions	2,487,095	2,117,005	219,291	4,823,391
Deductions				
Benefits	<u>1,008,432</u>	<u>893,082</u>	<u>-</u>	<u>1,901,514</u>
Net increase in plan net assets	1,478,663	1,223,923	219,291	2,921,877
Net assets held in trust for pension benefits - beginning of year	<u>14,279,146</u>	<u>11,558,068</u>	<u>370,469</u>	<u>26,207,683</u>
Net assets held in trust for pension benefits - end of year	<u><u>\$ 15,757,809</u></u>	<u><u>\$ 12,781,991</u></u>	<u><u>\$ 589,760</u></u>	<u><u>\$ 29,129,560</u></u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

To the Supervisor and Members of
The Township Board
Charter Township of Harrison
Macomb County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Charter Township of Harrison as of and for the year ended December 31, 2006, which collectively comprise the Charter Township of Harrison's basic financial statements and have issued our report thereon dated June 6, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Charter Township of Harrison's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter Township of Harrison's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the Charter Township of Harrison's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Preparation of Financial Statements In Accordance with Generally Accepted Accounting Principles.

Management routinely prepares internal financial information to assess operations and the financial position of the Township on an ongoing basis. Based on our audit we found that in most instances these internal documents were very accurate and reliable. Although the internal financial information is sufficient to operate the Township, it is not presented in accordance with generally accepted accounting principles, and, in most instances, it would not be cost justified to do so. The Township contracts with us, the auditors, not only to audit the internal financial statements but also draft the

financial statements, including all necessary notes, in accordance with generally accepted accounting principles. Although the Township has experience staff that can review the proposed audit entries and financial statements to determine that the number and amounts are correct, the individual(s) do not have the experience or training to assess whether the financial statements, including the notes, are presented in accordance with Generally Accepted Accounting Principles. As a result this is considered a control deficiency since errors could occur in the preparation of the financial statements and the Township would not be in a position to detect the errors.

Although we cannot be part of the Township's control system, let us assure you that our Firm specializes in the audit and preparation of governmental financial statements, and we believe that our internal control procedures would detect any material deficiencies in the financial statements. However the statements are prepared based on the information provided by management, we cannot be responsible for information that has not been brought to our attention or that we did not note during our audit procedures.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Charter Township of Harrison's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above to be a material weakness.

We noted certain matters that we reported to management of Charter Township of Harrison in a separate letter dated June 6, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Charter Township of Harrison's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

This report is intended solely for the information and use of management, the Township Board, and others within the Charter Township of Harrison, and is not intended to be and should be used by anyone other than these specified parties.

Sincerely,



June 6, 2007

MANAGEMENT LETTER

To the Supervisor and Members of
the Township Board
Charter Township of Harrison
Macomb, Michigan

We have recently completed our audit of the basic financial statements of the Charter Township of Harrison as of and for the year ended December 31, 2006. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving management's control and the operational efficiency of the Township's recordkeeping system or compliance with laws and regulations. These suggestions are a result of our evaluation of internal accounting control for audit purposes and our discussions with management. As noted in our *Report on Internal Accounting Controls*, these weaknesses were not considered significant deficiencies in relation to the basic financial statements of the Charter Township of Harrison.

All allowances (clothing and food) should be paid through payroll unless documentation of expenses is required.

During our audit we noted that certain allowances are paid for clothing and food to employees through the account payable process and if the total allowance is in excess of \$600 then an IRS 1099 Form is issued at the end of the year. The IRS requires that all payments made to employees except those that are a reimbursement of expenses and supported by detailed documentation, an "accountable plan", be paid through payroll.

We recommend that policies and procedures be adopted that require the employees to submit detailed documentation that qualify for reimbursable expenditures or that the payments be paid through payroll and be subjected to payroll taxes and withholding.

Bank certifications should be obtained from each financial institution where the Township maintains deposits.

Public Act 20, as amended, requires that each local unit adopt an investment policy and that each financial institution be provided a copy of that investment policy and acknowledges their receipt of the investment policy and that they agree to comply with the terms and conditions of the policy. During our audit it was indicated that the certifications had been received a number of years ago but they could not be located.

We recommend that new certification be obtained from each financial institution. In addition with the issuance of GASB No. 40, Deposit and Investment Risk Disclosures, which requires addition disclosures in the Township annual financial statements, including interest rate risk, custodial credit risks, concentration of credit risk, etc., the Township may want to revise its investment policy.

The Township held investments which appeared not to be in compliance with Public Act 20 of the Michigan Compiled Laws.

As of December 31, 2006, the Township held corporate debt as an investment, which does not appear to be permitted by Public Act 20 of 1943, as amended for governmental entities. Our understanding is Public Act 20 permits municipalities, if authorized in their investment policy, to purchase and hold commercial paper if at the time of purchase the commercial paper is rated at the highest classification established by not less than two standard rating services and that matures not more than 270 days after purchased. Based on conversations with the broker, these securities are not commercial paper; however, according to the broker, they are more secure than commercial paper. The corporate debt in question has since matures.

We recommend that the Township review these investments with the broker and if necessary with legal counsel to determine if they comply with Public Act 20 and the Township investment policy.

Electronic Funds Transfer Policy.

Public Act 738 of 2002 requires that each governing body adopt a policy for Automated Clearing House (ACH) arrangement and Electronic Transactions of Funds before electronic transactions can occur in a municipality. The policy should contain procedures and personnel responsible for payments, approval, accounting, reporting and general overseeing of compliance issues.

If the Board desires to continue utilizing electronic transfers that a formal policy be adopted by the Township Board.

Certain escrow balances should be maintained in separate bank accounts that earn interest.

During our audit we noted two escrow accounts that are required to be maintained separately and earn interest. We recommend that the escrow account documentation be reviewed and that separate accounts be established if required by the escrow documentation.

The Township should consider adopting a policy regarding personal use of township vehicles.

During our procedures it was noted that the Township does not have a policy regarding the personal use of Township vehicles. For liability reasons we recommend that the Township adopt a formal policy prohibiting the use of any Township vehicle for personal use.

The Township should review and document the administration charges between the various funds.

The Township currently charges an administration fee from the general fund to various other funds of the Township for services provided by the general fund. This is a very common and acceptable practice. However, it is our understanding that the method of determining the charges has not been reviewed and updated in a number of years.

We recommend that these charges be reviewed and documentations maintained on how the amount was determined.

The Township budget should be adopted at the department level.

For 2006 the Township Board minutes indicated that the budget was adopted at the "total" expenditure level. For control purposes the Michigan Department of Treasury recommends, and we concur, that the budget should be adopted at the department level.

These conditions were considered in determining the nature, timing and extent of the audit tests applied in our audit of the December 31, 2006 financial statements. We have not considered internal control since the date of our report. It is important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended solely for the information of the audit committee, administration and the Township Board of the Charter Township of Harrison, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss any or all of these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,

A handwritten signature in cursive script, reading "Stewart, Beauvais & Whipple".

June 6, 2007